

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

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It seems that summer movie season is turning into the age of the sequel.

Since May, studios have released a google of familiar fare. Theater screens have been littered with Charlie's Angels, Terminators, and X-Men, to name a few. The one thing they have in common is all are a variation on a previous story. This description also fits the new *Idaho Economic Forecast*. In this *Outlook*, DFM invites you to a sneak preview of the sequel to its April 2003 *Forecast*.

It appears Idaho's economy fared better in 2002 than had been previously reported. In the April 2003 *Idaho Economic Forecast*, DFM reported that Idaho nonfarm employment had declined 0.7% last year. This analysis was based on two quarters of historical data, one quarter of preliminary data, and a quarter of forecasted data. Since then, the Idaho Department of Labor has provided updated data that show employment growth was actually stronger. Specifically, it now appears there was no job decline from 2001 to 2002. A major reason for this can be traced to the preliminary data. The previous forecast has a 3.2% employment dip in the third quarter of last year. The revised data has total nonfarm employment not declining, but growing at a 1.0% annual rate in that quarter. This raises the starting point of the employment forecast by over 6,000 jobs.

In April 2003, the forecast called for Idaho nonfarm employment to grow gradually over the forecast period after suffering a setback in 2002. The new forecast is similar. Nonfarm employment advances 0.4% in 2003, 1.2% in 2003, and 1.6% in

both 2005 and 2006 in this forecast. In the previous forecast employment rose 0.1% in 2003, 1.5% in 2004, 1.7% in 2005, and 2.0% in 2006.

Last spring the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) published its estimates of Idaho personal income. As part of this release, the estimates back to 1999's first quarter were lowered. As a result, Idaho personal income is reported at \$28.90 billion in 1999, \$31.18 billion in 2000, and \$32.36 billion in 2001. Idaho personal income was reported as \$28.93 billion in 1999, \$31.31 billion in 2000, and \$32.53 billion in 2001 in the previous *Forecast*. The previous estimate for 2002 of \$33.65 billion was based on three quarters of historical data and one quarter of projected data. The new estimate of \$33.61 billion is solely based on historical data.

While the estimate for 2002 was reduced, it is important to point out income growth from 2001 to 2002 has actually increased because the 2001 estimate was also lowered. Specifically, Idaho personal income grew 3.4% from 2001 to 2002 under the old estimates, but increased 3.8% based on the revised estimates. While the revisions have changed the histories of the employment and income series, the projections for these two series have changed little from their previous forecasts.

In the April 2003 *Idaho Economic Forecast* Idaho nominal personal income was anticipated to rise 4.3% in 2003, 5.3% in 2004, 5.1% in 2005, and 6.0% in 2006. It is now believed Idaho personal income will increase 3.5% this year, 5.2% next

year, 5.1% in 2005, and 5.5% in 2006.

The current national economic forecast shows the economy picking up steam during the second half of this year. Under the forecast assumptions, next year promises to be the strongest of the forecast period, followed by slower growth. Specifically, after growing just 2.4% in 2003, real GDP should increase 4.3% in 2004, and 3.3% in 2005 and 2006. A major factor causing the optimism during the second half of this year is the economic stimulus already in the pipeline. Both the Federal Reserve and the federal government have taken actions to keep the economy moving. The nation's central bank lowered the federal funds rate to 1.0% in June, solidifying its commitment to bolster the economy. One of the reasons the Federal Reserve can afford to be so aggressive is the benign inflation outlook. President Bush signed the *Jobs and Growth Tax Relief Reconciliation Act* into law this May. The provisions likely to have the biggest impact are nearly identical to those of the initial proposal. These are the acceleration of scheduled rate cuts, the increased child tax credit, and some relief from the alternative minimum tax and marriage penalty. While the dividend and capital gains tax relief will have a limited impact on spending, the investment provisions should have some effect. The federal government also showed generosity to the states by providing \$20 billion in relief to help bridge budget gaps.

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General Fund Update

As of June 30, 2003

Revenue Source	\$ Millions		
	FY03 Executive Estimate ³	DFM Predicted to Date	Actual Accrued to Date
Individual Income tax	886.5	886.5	837.8
Corporate Income tax	86.0	86.0	93.1
Sales Tax	691.9	691.9	700.2
Product Taxes ¹	22.1	22.1	21.8
Miscellaneous	99.8	99.8	111.0
TOTAL GENERAL FUND²	1,786.4	1,786.4	1,763.9

¹ Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
² May not total due to rounding
³ Revised Estimate as of January 2003, adjusted for 2003 legislative actions

General Fund revenue was \$10.3 million higher than expected in June. This brings the final fiscal year-to-date revenue gap to \$22.4 million (1.3 percent) below the target. All five revenue categories exceeded expectations in June, while only the Individual Income Tax and Product Taxes fell short of their respective targets for the full fiscal year. Far and away the largest shortfall was in the Individual Income Tax, which came in \$48.7 million lower than expected for the year. Fortunately, Corporate Income Tax, Sales Tax, and Miscellaneous Revenue together offset more than half of the weakness in the Individual Income Tax.

Individual income tax revenue was \$2.1 million higher than expected in June, but this only managed to bring the year-to-date gap to \$48.7 million lower than expected. The shortfall consists of \$19.0 million less than expected from filing collections, \$10.1

million less than expected from withholding collections, and \$21.2 million more than expected in refund payouts. Miscellaneous diversions were \$1.6 million lower than expected. Individual Income Tax was almost flat in FY 2003, growing just 0.2 percent over FY 2002.

Corporate income tax revenue was \$4.4 million higher than expected in June, and ended the fiscal year \$7.1 million higher than the forecast of \$86.0 million. Filing payments were \$8.7 million above target, and estimated payments were \$3.0 million higher than expected for the year. Refunds were \$5.5 million higher than expected for the year, miscellaneous diversions were \$0.1 million lower than expected, and Multistate Tax Compact collections were \$0.7 million higher than expected.

Sales tax revenue was \$1.1 million lower than expected in June, but the fiscal year was nonetheless \$8.3

million higher than expected for the fiscal year. June's weakness is most likely just the flip side of May's strength, as purchases were accelerated into April to avoid the extra penny of sales tax that took effect May 1, 2003. Other than June, only two other months in FY 2003 (October and January) were slightly lower than expected for Sales tax revenue.

Product tax revenue was slightly (\$0.1 million) above target in June, but ended the year \$0.3 million short of the forecast. The weakness was in cigarette tax collections. Miscellaneous revenue collections were \$4.8 million higher than expected for the month, and \$11.2 million higher than the forecast for the fiscal year. This strength was due to a combination of insurance premium tax, estate tax, and unclaimed property collections.